CalPERS

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AGENDA ITEM 4

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: Senate Bill 154 (Chesbro) –
As Amended April 21, 2005

Out-of-State Health Coverage

Sponsor: California State Employees Association, Retired Division

II. PROGRAM: Legislation

III. RECOMMENDATION: Neutral

This bill would authorize CalPERS to contract with out-of-state public employee pension and health systems to provide health care benefits for California employees and annuitants residing out of state.

IV. ANALYSIS:

This bill would authorize the CalPERS Board of Administration to contract with out-of-state public employee pension and health systems to provide health care benefits to California employees and annuitants who reside outside this state.

<u>Background</u>

The Public Employees' Medical and Hospital Care Act (PEMHCA) currently authorizes the CalPERS Board to contract with carriers licensed and doing business in other states to provide health benefits for employees and annuitants who reside outside this state. In addition, CalPERS may enter into a group health benefit plan provided by an out-of-state Health Maintenance Organization (HMO), group insurance policy, group service agreement, membership or subscription contract, or other similar group arrangement provided by a carrier that is in operation in the community or area where the employee's duties are usually performed. Current law also allows CalPERS members to receive out-of-state coverage through one of the Board approved out-of-state health benefit plans.

To minimize coverage of adverse selection between health plans offered to participants, CalPERS has created a standardized health benefits design. Coverage is provided to CalPERS members through contracting HMOs, CalPERS' self-funded preferred provider organizations (PPOs), and association plans limited to members of specific employee organizations.

CalPERS spends approximately $4 billion annually to purchase health benefits for 1.2 million active and retired state and local government public employees and their families in its health plans. Approximately 46,000 of those covered by CalPERS health plans reside outside California, accounting for four percent of total covered lives and four and one-half percent of the CalPERS' total health care costs. Of these 46,000, approximately 32,000, or 70% of members who live outside of California, reside in ten states.

Chart 1 shows the top ten states populated by CalPERS members residing outside of California.

Chart 1

Top Ten States of CalPERS Member Non-California Residency[1]

State	Active	Annuitants	Total
1. Oregon[2]	1,004	6,292	7,296
2. Arizona	1,210	5,187	6,397
3. Nevada	796	4,341	5,137
4. Washington[2]	113	3,676	3,789
5. Texas	242	2,425	2,667
6. Idaho	59	1,906	1,965
7. Florida	44	1,638	1,682
8. Colorado[2]	60	1,238	1,298
9. Utah	60	1,233	1,293
10. Missouri	28	927	955
Sub-total	3,616	28,863	32,479

NOTES:
[1]Source: CalPERS enrollment December 2005, total covered lives.

[2]Kaiser out-of-state health plan discussed below is available in these states, in addition to PERSCare and PERS Choice.

Most out-of-state members are enrolled in one of CalPERS self-funded plans, PERSCare and PERS Choice, which are available world-wide. In addition, the CalPERS contract with Kaiser, a large multi-state integrated staff-model HMO that operates facilities in multiple states, includes health benefits coverage outside of California in specific areas of Colorado, Georgia, Hawaii, Ohio, Oregon, Washington, Maryland, and Virginia. This plan is available to out-of-state employees and annuitants residing in those areas.

Kaiser offers coverage to CalPERS members in every state where it has facilities and those facilities satisfy specified requirements. By contrast, to offer coverage through other state HMOs, CalPERS would have to individually contract with the plans licensed in each state.

In addition to the coverage options available to CalPERS members, the Department of Personnel Administration administered Rural Health Care Equity Program (RHCEP) provides limited reimbursement of specified health care expenses for State employees and annuitants without HMO access where they reside. This program was intended to provide a subsidy to employees and annuitants enrolled in a CalPERS approved health plan (e.g., PERSCare, PERS Choice) in an area where there was not an HMO available to bring the cost closer to those covered by an HMO. When the program was initially enacted, the RHCEP applied to eligible employees and annuitants in California <u>and</u> out-of-state. The law was later amended to remove out-of-state annuitants from the RHCEP effective July 1, 2003.

<u>**Proposed Changes**</u>

SB 154 would authorize the CalPERS Board to contract with out-of-state public employee pension and health systems to provide health care benefits to California employees and annuitants who reside outside the state. This bill would allow CalPERS to enter into a contract with another public employee pension and health system, as opposed to a "carrier," as an alternative to provide health care benefits to employees and annuitants who reside outside California.

SB 154 is a permissive bill as it grants CalPERS the authority to enter agreements, but does not legislatively mandate any action on the part of CalPERS.

<u>**Legislative History**</u>

2004 SB 1105 (Committee on Budget and Fiscal Review) - Extended the operation of the Rural Health Care Equity Program until January 1, 2008. *CalPERS' position: None*.

2003 AB 296 (Oropeza) - Clarified language in AB 1756. AB 296 clarified that reimbursements from the RHCEP provided to retirees were limited to residents of California. *CalPERS' position: None*

2003 AB 1756 (Chesbro) - Included changes to the RHCEP to amend the eligibility criteria for this program for out-of-state retirees. It stated that annuitants who become residents of a state other than California on or after July 1, 2003, are ineligible for the program. *CalPERS' position: None*

1999 SB 514 (Chesbro) - Established the Rural Health Care Equity Program (RHCEP), administered by DPA, that provides reimbursement of specified health care expenses for state employees and annuitants that do not have access to a Health Maintenance Organization (HMO). The RHCEP applied to eligible employees and annuitants in California and out of state. The legislation established a sunset date of January 1, 2005 for the RHCEP. *CalPERS' position: Sponsor*

Issues

1. Arguments by Those in Support

   The sponsor's stated intent of this bill is "[T]o authorize CalPERS to negotiate reciprocal health plan agreements in other states. The concept would be that state retirees who move out of state could join another state's health insurance plan and CalPERS would continue paying their regular premiums."

   Organizations in Support: California State Employees Association Retired Division (Sponsor); California State Employees Association; Retired Public Employee's Association; Service Employees International Union, Local 1000

2. Arguments by Those in Opposition

   The Department of Finance testified in opposition of the bill due to potential administrative costs.

   Organization in Opposition: Department of Finance

3. Retiree Impact and Cost

   SB 154 would authorize another possible alternative to provide health care benefits to employees and annuitants living outside California. Any potential savings would be dependent on the agreement established between CalPERS and the out-of-state retirement system. The majority of the CalPERS out-of-state members are retirees. Retirees are generally higher risk because they are statistically more likely to have medical conditions that necessitate higher utilization of services. As such, this would have some degree of an adverse impact on premiums of another state's retirement system that agrees to accept CalPERS' out-of-state annuitants. Additional information is needed to quantify the precise increase in health premiums.

   The employee and/or annuitant may be subject to the other state system's laws and regulations, and may not be afforded the same protections available to CalPERS members. Any potential cost savings must be weighed against the HMO design and the state's laws, which could vary state to state.

4. Standardized Health Benefits Design

   CalPERS offers a standard comprehensive health benefit design with all three of its contracting HMOs, including a separate Medicare-coordinated plan for those eligible. Each state may develop and administer its health benefit design differently. Entering into contracts with out-of-state retirement systems would have to be done state by state, which may make it difficult to ensure consistent and equitable benefits amongst the out-of-state employees and annuitants.

5. Implementation Questions

There are also potential implementation considerations. For example:

- Laws governing HMOs vary between each state, and the agreement that another state has with its health benefit plans may be very different from the kind of agreements that have been negotiated by CalPERS with its current health plans. These differences affect such disparate elements of plan administration as benefit design and member appeal rights.
- The ability of another state's retirement and health system to include CalPERS members into its health plan would depend on that state's laws. Legislation in that state may need to be pursued and passed to authorize such an agreement if it did not already exist.
- There may also be issues of jurisdiction in the cases of an appeal. In addition, the laws governing HMOs vary from state to state. For instance, in California the Department of Managed Health Care and the California Department of Insurance license and regulate health care plans and health insurers. These agencies would not have jurisdiction over out-of-state HMOs.
- The sponsor's stated intent is to authorize CalPERS to negotiate "reciprocal health plan agreements in other states." If another state requests a reciprocal arrangement with CalPERS in order to consent to an agreement, then PEMHCA eligibility would have to be amended to include non-California public employees and annuitants. Adding annuitants from other states into CalPERS HMO plans has a potential to cause adverse selection if out-of-state annuitants with high medical needs move to California and seek to join CalPERS. Additional information is needed to quantify the increase in CalPERS health premiums.

6. Legislative Policy Standards

CalPERS' Legislative Policy Standards suggest a neutral position for proposals which: (1) have conflicting policy implications; (2) adds benefits or coverages which are already included in the PEMHCA standardized health benefit package or are not detrimental to the program. This bill meets these criteria.

V. STRATEGIC PLAN:

This item is not a specific product of the Annual or Strategic Plans, but is a part of the regular and ongoing workload of the Office of Governmental Affairs.

VI. RESULTS/COSTS:

This bill would allow CalPERS to enter into agreements with other state public employee pension and health systems to provide health care coverage for CalPERS members residing outside of California.

Program Cost

The actual program costs will be dependent upon the number of out-of-state contracts CalPERS enters into, the specific contracts CalPERS negotiates with other state systems, and the number of members impacted by these contracts.

It is unknown at this time how program costs will be determined and allocated. This will depend on the agreements made between the states. Additionally, the program costs will be impacted by the number of out-of-state retirees CalPERS accepts into its health program. Additional information is needed to quantify the increase in CalPERS health premiums.

Administrative Costs

Administrative costs for CalPERS will depend on the number of available and willing out-of-state pension and health systems, the number of contracts entered into, the terms and conditions of such contracts, and the level of difficulty and time spent identifying interested partners and negotiating an agreement that the Board deems "necessary or desirable."

With that taken into consideration, the following minimum administrative costs for implementing SB 154 are anticipated:

One-Time Efforts

In order to determine whether entering into contracts with other retirement systems in other states would benefit its members, CalPERS would first need to evaluate the feasibility of such a proposal. If the assessment was favorable, CalPERS would need to gather information on interest by other states via the Request for Information (RFI) process and conduct the contracts process.

CalPERS estimates costs for a feasibility evaluation at a minimum of $100,000. This estimate includes hiring a consultant firm to evaluate national and CalPERS demographics, research similar retirement and health systems across the nation and their health benefit offerings. Furthermore, CalPERS estimates that the RFI and contracts effort would require the services of a consultant to oversee the outreach and solicitation processes with one-time staffing needs of approximately 1530 hours at $200 an hour. This figure does not include the cost of CalPERS' staff time or travel, which would vary depending on the scope of the feasibility evaluation.

Ongoing Efforts

The Office of Health Plan Administration (HPA) estimates that ongoing contracting/contract administration for a multi-state contract would require the addition of one permanent division staff (1 PY) at the analyst level.

The Office of Employer and Member Health Services (EHMS) estimates that ongoing enrollment and eligibility services and appeals administration for out-of-state enrollees would require the addition of one permanent division staff (1 PY).

Substantial costs are projected for the one-time feasibility evaluation, initial contracting and implementation efforts and ongoing staffing needs. Minimal costs are projected to update enrollment systems with new enrollment types and for staff training.

One-time Cost Estimates		***On-going Cost Estimates***	
Feasibility Evaluation	$100,000	EMHS Analyst	$ 81,540
Consultant	$ 306,000	HPPA Analyst	$ 81,540
RFI Advertisement Costs	$ 11,500		
Total	$417,500	Total	$163,080

1st Year Total Cost:	$ 580,580

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